CHAPTER 4

RESEARCH RESULTS

4.1 INTRODUCTION

The performance of the Malaysian economy in 1998 was adversely affected by the deflationary impact of the financial crisis that beset the region since mid-1997. Domestic demand declined as a result of a variety of factors. These included the erosion of private sector wealth caused by falling stock and asset prices, higher interest rates prior to September 1998, initial difficulty faced by the private sector in accessing to bank credit, tight liquidity as well as uncertainties with regard to the near term economic and employment prospects.

Reduced economic activities as well as lower real disposable income led to a significant reduction in the demand for imports. The manufacturing sector, which provided the main impetus to overall GDP growth for the past decade, experienced a reduction in its output by an estimated 5.8% in 1998 (1997: +12.5%). Output of the domestic market oriented industries declined sharply, that is by an estimated 8.8%, in 1998 (1997: +15.4%), while the output of export market-oriented industries contracted moderately by an estimated 2.9% (1997: +9.7%)

Table 3

Gross Domestic Product (GDP) by Sector (%)

	1997			1998[e]		
	Growth	Share of GDP	Contribution to Growth	Growth	Share of GDP	Contribution to Growth
Agriculture, forestry and fishing	1.3	11.9	2.2	-5.9	11.8	-14.7
Mining	1.0	6.7	0.9	-0.8	7.0	-1.1
Manufacturing	12.5	35.7	55.5	-5.8	35.4	-43.2
Construction	9.5	4.8	5.8	-19.2	4.1	-19.2
Services	8.0	44.9	46.5	2.1	48.1	19.7
Less: Imputed bank charges	14.6	8.2	14.6	6.8	9.2	11.6
Plus: Import Duties	6.7	4.1	3.6	-35.0	2.8	-29.9
GDP	7.7	100.0	100.0	-4.8	100.0	100.0

[e] estimate *Source: Economic Report 1998/1999; Ministry of Finance Malaysia; p72*

4.2 SERVICES ACCOUNT

Measures were introduced specifically to address the deficit in the services account of the balance of payments during the presentation of the 1998 budget. These measures were:

i. Provision of concessionary tax rate of 5 percent on income derived from underwriting of foreign inward life reinsurance, in order to encourage the growth of the life reinsurance industry.

ii. Withdrawal of the additional tax relief given for children studying abroad in institutions of higher learning. Parents who sent their children to study at local institutions of higher learning would continue to be given tax relief of 4 times the amount of child relief.

A number of additional measures were introduced in the 1999 Budget to further strengthen the balance of payments position. The measures were:

i. Losses incurred in the production of approved food items such as maize and cattle are allowed as deduction from profits of companies in the same group for purpose of income tax. This is to encourage the involvement of the corporate sector in food production on a commercial basis for purpose of substituting imports. This incentive is applicable for applications before the end of 1999;

ii. Exemption of rental income from 'time charter' and 'voyage charter' from income tax. This is to further develop the shipping industry and also to increase the tonnage of 'Malaysian Ships', in order to address the large net payment on freight services;

iii. Provision of income tax exemption for activity in the leisure boats and yachts repair and maintenance in Langkawi for a period of 5 years. This is to promote Langkawi as a regional center for the repair and maintenance of leisure boats and yachts;

iv. Income tax exemption on income earned by non-residents from performing in arts and cultural shows, participating in exhibitions, games and competitions;

v. Income tax exemption of 50 percent on income derived by organisers of sports, cultural shows, art exhibitions and carnivals involving foreign participation;

vi. Exemption from entertainment duty on admission tickets to cultural performance, arts shows, exhibitions, carnivals and sports that are held in National Sports Complex, National Theatre, National Art Gallery and the Petronas Philharmonic Hall; and

vii. Sales tax exemption on goods sold by Malaysian companies during approved sales carnivals held in the National Sports Complex, Bukit Jalil.

4.3 Manufacturing and Agriculture

The government during the presentation of the 1998 Budget in October 1997 introduced measures to strengthen the balance of payments position. These measures were aimed at enhancing the competitiveness of Malaysia's exports, reducing imports and strengthening the services account of the balance of payments. Tax incentives were given effective 1 January 1998 to companies in manufacturing, service and agriculture sector based on the increase in export value in the following manner:

a) Double deduction for certain expenses incurred on the promotion of exports;

b) Tax exemption of 70 percent on statutory income earned by a Malaysian International Trading Company from its increased export sales for 5 years;

c) Tax exemption on statutory income equivalent to 10 percent of increased export value for products provided that goods exported attain at least 30 percent value added;

d) Tax exemption on statutory income equivalent to 15 percent of increased export value provided that goods exported attain at least 50 percent value added;

e) Tax exemption on statutory income equivalent to 10 percent of increased export value for export of agricultural produce;

f) Tax exemption on statutory income equivalent to 50 percent of increased export value companies in certain service sectors;

g) Double deduction for insurance premium for export credit facilities;

h) Double deduction for overseas promotion expenses;

i) Deduction of expenses incurred prior to commencement of operations for approved overseas investments; and

j) Exemption of import duty and sales tax on raw materials, components, machines and equipment used in the production of goods for the export market.

The following measures were introduced to reduce imports.

i) All imports of heavy machinery for the construction sector were required to obtain approval to import from the Ministry of International Trade and Industry.

ii) Import duty on construction materials such as tiles, marble, iron and steel was increased from between 5 percent and 25 percent to between 10 percent and 30 percent.

iii) Import duty of 5 percent was imposed on heavy machinery and equipment such as tower cranes, forklifts and escalators.

iv) Import duty on dumpers and multi-purpose vehicles was increased from between zero and 30 percent to 50 percent.

v) Import duty on special purpose vehicles such as crane lorries and concrete mixer lorries was increased from 35 percent to 50 percent.

vi) The rate of initial capital allowance from imported heavy machinery was reduced from 20 percent to 10 percent, and the annual allowance was reduced from between 12 percent and 20 percent to 10 percent.

4.4 TOURISM

Several tax measures were introduced in the 1999/2000 budgets to promote the tourist industry in order to further strengthen the balance of payments position. They were as follows:

i) Provision of income tax exemption for activity in the leisure boats and yachts repair and maintenance in Langkawi for a period of 5 years;

ii) Income tax exemption on income earned by non-residents from performing in arts and cultural shows, participating in exhibitions, games and competitions;

iii) Income tax exemption of 50 percent on income derived by organisers of sports, cultural shows, art exhibitions and carnivals involving foreign participation.

Additional tax measures specifically aimed at attracting tourists into this country were also introduced in the 1999 Budget. These include provision of full income tax exemption for income derived by drivers of racing cars and 50 percent tax exemption for income derived by organisers of 'Formula One' and other forms of motor racing which are internationally recognised and held in Malaysia. Measures to promote domestic tourism included granting tax exemption for profits earned to tour operators and agencies which can sell their domestic tour packages to at least 1200 locals annually.

Among the tourist products promoted were shopping, eco and agro-tourism, cultural attractions, leisure and sports related activities as well as new resorts at scenic lakes and dams, islands, beaches and hot springs. The hosting of XVI Commonwealth Games attracted 4,208 athletes and 2,460 officials as well as the media and visitors from overseas.

4.5 FREE TRADE ZONE

To promote free-trade zone, income tax exemption for activity in the leisure boats and yachts repair and maintenance in Langkawi for a period of 5 years is provided. Income tax exemption of 50 percent on income derived by organisers of sports, cultural shows, art exhibitions and carnivals involving foreign participation is also aimed at promoting free-trade zone.

Although events such as Le Tour de Langkawi, International Penang Bridge Run World Motorcycle Grand Prix and Langkawi International Maritime and Aerospace (LIMA) exhibition is carried out annually, the number of participants is seen declining. Little information is available on the success of the above events in promoting free-trade zones.

4.6 PROPERTY OWNERSHIP BY FOREIGNERS

Prior to 1998, the purchase of any property by foreigners / foreign owned companies requires the prior approval of the Foreign Investment Committee (FIC) pursuant to Section 433A of the National Land Code 1965, irrespective of the amount of the purchase price.

Effective 22 April 1998, the government relaxed its condition for property ownership by foreigners. The new guidelines are as follows:

i. Foreigners are allowed to purchase all type of residential units, shop houses, commercial and office spaces costing RM250, 000 (applicable to projects that are newly completed or at least 50% in progress)

ii. No modification on the existing building design or structure with the intention to increase the unit price to more than RM250, 000. Financing of the acquisition must be obtained from oversea financial institution outside Malaysia.

iii. Approval will be granted automatically when these conditions are fulfilled by the purchaser otherwise will be subjected to the existing FIC guidelines

iv. Allow to disposed property only after three years from purchase date.

However, effective from 25 April 2001, the FIC relaxed its rules to allow foreign citizens to buy all types of local property costing above RM250, 000 without having to form a company with Malaysian equity participation.

They will also be allowed to source for funds to make such property purchases from domestic banks.

Previously, foreign citizens were only allowed to buy projects that were fully completed or properties that were at least 50% finished, and financing had to be sourced externally.

The changes in the FIC guidelines have been made to encourage private investment and improve the investment climate in Malaysia. Under the revised rules, which are effective retrospective to April 25 2001, Malaysian citizens and companies also no longer require approval from the FIC to make property transactions costing below RM20 mil. They now only have to report such transactions.

Malaysians also no longer need FIC approval for property acquisition below RM10 mil. Also, companies engaged in manufacturing activities that are exempted from licensing by the Ministry of International Trade and Industry are now allowed to buy industrial or factory lots for manufacturing purposes.

To encourage foreign companies to set up their headquarters or regional offices in Malaysia, such companies will be allowed to establish headquarters and branches costing above RM250, 000 in Malaysia without domestic equity conditions.

Companies in other Asean, countries wishing to establish joint ventures or conduct business in Malaysia will also be allowed to own offices or office space costing above RM250, 000 without domestic equity conditions. Foreigners will also be allowed to buy properties priced above RM150, 000 in designated areas under the Silver-Haired Programme.

While Bank Negara's policy on the RM250, 000 cap for funding of development on new residential and shop house units remained in force, specific policy measures were introduced through Budget 2001 to promote recovery in the property market. As a result of these measures, property buyers and sellers now enjoy lower costs of transactions on higher-priced properties through a lower ceiling rate of 3 percent for ad-valorem stamp duty on property transfers. To raise workers' housing standard, the government substantially raised its housing loan eligibility amounts and allowed public sector workers recourse to the resulting additional eligibility to upgrade to better properties. The Budget also set a new RM 797 million commitment towards the rehabilitation of abandoned housing projects. To achieve streamlining of fund management in this area, the responsibility for coordinating and implementing all existing funds on low-cost housing is now centralised and vested in Syarikat Perumahan Negara.

Meanwhile, in further exercises to dispose of properties originally taken over to deal with non-performing loans (NPLs), Pengurusan Danaharta Nasional Berhad ("Danaharta") held three tender sales in 2000, in April, August and December. In this three exercises, Danaharta achieved 58.5 percent, 44.4 percent and 40.7 percent successes in number of properties sold, with a combined total of 264 properties sold at the total consideration of RM469.9 million. While high interest was indicated on the tendered properties, a significant bulk of the actual sales were of lower-priced properties in the sectors of residential and agricultural; together, they made up almost 50 percent in volume but only 13.2 percent in total value transacted.

The year 2000 did not see activity on the scale of massive nationwide Home Ownership Campaigns organised in 1999. The Housing Developers Association fronted a lesser involvement in 2000, holding only a property exhibition towards the end of the year to help promote house sales in the central region. The exhibition did not confer to buyers the benefits of extensive discounts and incentives as offered by a home ownership campaign. Promotional initiatives of a similar nature were also seen embarked upon by some property-related firms and sales agents during the year[4].

4.7 MULTIMEDIA SUPER CORRIDOR (MSC)

Companies will enjoy up to 10 years exemption from Malaysian income tax or a 100 percent Investment Tax Allowance on new investments. They will also enjoy duty free importation of multimedia equipment as well as R&D grants for local enterprises.

Besides financial incentives, companies enjoy unrestricted employment of foreign knowledge workers, freedom of ownership and freedom to source capital globally for MSC infrastructure.

[4] Property Market Report 2000; Valuation and Property Services Department; Ministry of Finance Malaysia